

Message Text

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ACTION ARA-10

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TAGS: EFIN, EGEN, CERP, VE

SUBJECT: GOVERNMENT FINANCES - 1977 BUDGET CONTEMPLATES

OUTLAYS OF BS 35.8 BILLION

REF: CERP 0200, 0201

SUMMARY: 1977 BUDGET BILL CALLING FOR EXPENDITURES OF BS. 35.8 BILLION ALLOCATES MORE THAN LAST YEAR FOR CURRENT OPERATING EXPENSES AT EXPENSE OF CAPITAL INVESTMENT. WE ANTICIPATE ACTUAL EXPENDITURES DURING 1977 WILL EXCEED ESTIMATE AS GOV SEEKS SUPPLEMENTARY ALLOCATIONS DURING COMING YEAR, AND THAT ADDITIONAL AMOUNTS WILL BE DEBT-FINANCED.

1. ON OCTOBER 6, MINISTER OF FINANCE HECTOR HURTADO PRESENTED TO CONGRESS 1977 BUDGET BILL. EMBASSY HAS NOT YET RECEIVED OFFICIAL COPY OF BILL; FOLLOWING PRELIMINARY REPORT BASED ON PRESS REPORTS AND DISCUSSIONS WITH KNOWLEDGEABLE GOV OFFICIALS. FURTHER DETAILS WILL BE PROVIDED AS THEY BECOME AVAILABLE.

2. BUDGET BILL AS PRESENTED PROVIDES FOR SLIGHT DEFICIT AMOUNTING TO APPROXIMATELY BS 362 MILLION. REVENUES ARE EXPECTED TO TOTAL BS 35.474 BILLION, WITH PETROLEUM REVENUES

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ACCOUNTING FOR BS 25.904 BILLION OF THE TOTAL AND NON-PETROLEUM

REVENUES TOTALLING AN ESTIMATED BS 9.3 BILLION. COMPARABLE FIGURES FOR 1976 WERE BS. 24.6 BILLION AND BS 8.4 BILLION, RESPECTIVELY.

3. CURRENT EXPENSES ACCOUNT FOR AN ESTIMATED 60 PERCENT OF PROJECTED BUDGETARY OUTLAYS, OR BS 21.5 BILLION. THIS REPRESENTS A SIGNIFICANT INCREASE OVER LAST YEAR, WHEN CURRENT EXPENSES ACCOUNTED FOR ONLY 54 PERCENT OF TOTAL ESTIMATED BUDGETARY OUTLAYS. CAPITAL EXPENDITURES WILL AMOUNT TO 26 PERCENT OF ESTIMATED OUTLAYS, (BS 9.3 BILLION) DOWN FROM 42 PERCENT IN LAST YEAR'S BUDGET, AND DEBT AMORTIZATION 14 PERCENT (OR BS. 5.016 BILLION).

4. THE BUDGET DOES NOT ALLOW FOR ANY INCREASE IN PETROLEUM REVENUE RESULTING FROM AN INCREASE IN THE PRICE PER BARREL OF OIL. HIGHER PETROLEUM PRICES WILL ONLY INCREASE REVENUE TO OPERATING COMPANIES WHICH IN TURN WILL USE THE FUNDS TO FINANCE NEW INVESTMENT IN THE INDUSTRY. A PRICE HIKE WOULD NOT BE ITSELF INCREASE TAX REVENUE, AS TAX LEVIES ON EACH BARREL SOLD WOULD REMAIN THE SAME.

5. THE GOV HAS TRADITIONALLY UNDERESTIMATED EXPENDITURES IN ITS BUDGET PRESENTATION. THE PROPOSED BUDGET DOES NOT INCLUDE INCOME DERIVED FROM LOANS CONTRACTED IN ACCORDANCE WITH THE REFINANCING LAW OR BASIC SECTORS FINANCING LAW, WHICH TOGETHER AUTHORIZE GOVERNMENT BORROWING OF APPROXIMATELY BS 44 BILLION OVER THE NEXT FIVE YEARS. BY BORROWING UNDER THIS AUTHORITY, THE GOV WOULD BE ENABLED TO INCREASE SPENDING SIGNIFICANTLY ABOVE THE BS. 35.8 BILLION LEVEL. FOR THE CURRENT YEAR, FOR EXAMPLE, ESTIMATED REVENUES TOTALLED BS 33 BILLION. IN FACT, SUPPLEMENTARY ALLOCATIONS TOTALLING BS 10.8 BILLION WERE APPROVED DURING THE YEAR, FINANCED BY USE OF TREASURY RESERVES AND THEIR INCREASES IN OIL PRODUCTION. IT IS QUITE LIKELY THEREFORE, THAT THE GOV WILL SEEK SUPPLEMENTARY ALLOCATIONS DURING THE COMING YEAR.

6. ONE IMPORTANT FEATURE OF THE PROPOSED BUDGET IS THE INCREASE IN THE SHARE DEVOTED TO CURRENT EXPENSES LARGELY AT THE EXPENSE OF CAPITAL INVESTMENT. DESPITE THE STATED INTENTION OF THE GOV TO NEUTRALIZE THE INFLATIONARY EFFECTS OF THE DRAMATIC INCREASE IN OIL REVENUES THROUGH PRICE CONTROLS AND STERILIZATION LIMITED OFFICIAL USE

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OF 60 PERCENT OF THE COUNTRY'S RESERVES IN THE VENEZUELAN INVESTMENT FUND, IT IS CLEAR THAT THE GOV AND ITS CONSTITUENT MINISTRIES HAVE SUCCUMBED TO THE TEMPTATION TO ALLOW EXPENDITURES TO INCREASE TO (AND SLIGHTLY BEYOND) THE LEVEL OF PROJECTED INCOME.

7. MINISTRIES WHICH WILL SUSTAIN REDUCTIONS UNDER THE 1977 BUDGET PROPOSAL INCLUDE THE FOREIGN MINISTRY, AND THE MINISTRIES

OF COMMERCE AND AGRICULTURE. THOSE WHICH BENEFIT FROM INCREASES INCLUDE THE MINISTRIES OF INTERIOR, FINANCE, DEFENSE, EDUCATION, HEALTH, LABOR, COMMERCE AND JUSTICE. FOLLOWING ARE ALLOCATIONS BY MINISTRY AS REFLECTED IN BUDGETARY PRESENTATION, TOGETHER WITH COMPARABLE FIGURES FOR PREVIOUS TWO YEARS:

(BS BILLION)

	1977	1976	1975
INTERIOR	7496	6865	8415
FOREIGN AFFAIRS	244	368	318
FINANCE	6942	5336	3323
DEFENSE	2196	1822	2446
DEVELOPMENT	814	835	754
PUBLIC WORKS	3500	3560	3480
EDUCATION	6498	5346	4795
HEALTH	2618	2161	1867
AGRICULTURE	2836	3155	3440
LABOR	502	377	410
COMMUNICATIONS	899	796	779
JUSTICE	634	574	493
MINES	213	232	536

8. BASED ON PAST EXPERIENCE, WE EXPECT BUDGET BILL TO BE PASSED BY CONGRESS ESSENTIALLY AS PRESENTED BY MINISTER OF FINANCE.

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